

# **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON OVERBERG DISTRICT MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Overberg District Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information set out on pages 9 to 49.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 et seq. of the SA Standards of GRAP, GRAP1, *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the

budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Opinion**

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Overberg District Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

#### **Emphasis of matter**

9. I draw attention to the matter below. My opinion is not modified in respect of this matter:

#### **Going concern**

10. As disclosed in note 34 of the financial statements, while the municipality has prepared financial statements on a going concern basis, and although it does not appear that the financial sustainability is under threat, it should be noted that the total liabilities of the municipality exceed the total assets by an amount of R11 900 329 (2009: R729 762).

#### **Additional matters**

11. I draw attention to the matters below. My opinion is not modified in respect of these matters:

#### **Material inconsistencies in other information included in the annual report**

12. At the date of finalising my audit, the annual report has not yet been finalised. I have, therefore, not been able to determine if there are any inconsistencies between the audited information and other information presented in the annual report.

#### **Unaudited supplementary schedules**

13. The supplementary information set out on pages 50 to 60 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

14. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, DoRA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), and financial management (internal control).

#### **Predetermined objectives**

15. Material findings on the report on predetermined objectives, as set out on pages 28 to 56 of the annual report, are reported below:

## **Non-compliance with regulatory and reporting requirements**

### ***Lack of adoption or implementation of a performance management system***

16. The municipality did not yet formally adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001. The performance management system was still in draft.

### ***Internal auditing of performance measurements***

17. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee by the end of the financial year, as required by section 45(a) of the MSA.

### **Usefulness of reported predetermined objectives**

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit finding relates to the above criteria:

### ***Planned and reported performance targets not specific/time bound***

18. For the selected objectives, only 50% of the planned and reported targets were:
- specific in clearly identifying the nature and the required level of performance;
  - time bound in specifying the time period or deadline for delivery.

### **Reliability of reported performance information**

The following criteria were used to assess the usefulness of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

***Inadequate content of the Integrated Development Plan (IDP) and presentation of reported information***

19. The actual achievements with regard to 67% of all planned indicators and targets specified in the IDP/SDBIP for the year under review, for the selected programmes were not reported in the annual performance report submitted for audit purposes.

***Reasons for major variances between planned and actual reported targets were not explained***

20. Explanations for major variances between the planned and the actual reported targets for selected indicators were not reported.

***Planned and reported indicators not verifiable***

21. Comparisons between performance in the current year with targets set for the current and previous financial years are not disclosed in the annual performance report and supported by appropriate corroborating evidence as required by Section 46(1) of the Municipal Systems Act, (Act No. 32 of 2000).
22. Fifty percent of the planned and reported indicators for selected objectives could not be agreed to valid supporting information. It was not possible to adequately validate the processes and systems that produce the indicators.

**Compliance with laws and regulations**

**Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)**

**Expenditure was incurred otherwise than in accordance with section 15 of the MFMA resulting in unauthorised expenditure**

23. Expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality. As disclosed in note 35 to the financial statements, unauthorised expenditure amounting to R5 016 475 was incurred. This mainly relates to overspending on votes.

**Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure**

24. Expenditure was not incurred in accordance with the requirements of the supply chain management policy of the municipality. As disclosed in note 37 to the financial statements, irregular expenditure amounting to R934 989 was incurred. This relates to assets scrapped that were not approved by council at year end.

**Approval of annual report**

25. The council did not approve its final 2009-10 annual report within two months after the report was tabled on or before 31 March 2010, as required by as required by section 129 of the Municipal Finance Management Act, 2003.

**Approval of annual budget**

26. The council did not approve its 2010-11 budget on or before 30 June 2010, as required by section 16 of the Municipal Finance Management Act, 2003.

## **INTERNAL CONTROL**

27. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with relevant laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.
28. The matters reported below are limited to the significant deficiencies regarding the basis for the opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

## **Leadership**

29. The municipality did not exercise adequate oversight responsibility to ensure compliance with certain aspects of the legislative framework, and as a result its 2009-10 annual report and 2010-11 budget was not approved within the legislated timeframes.

## **Financial and performance management**

30. Findings related to the report on predetermined objectives were not prevented or detected by the municipality's internal control systems. Management has not implemented adequate systems to ensure that there is a clear trail of supporting information for the reported targets achieved in the annual performance report.

## **Governance**

31. Internal audit did not fulfil its responsibilities as set out in legislation and in accordance with its work plan prior to the end of the financial year as it was unable to complete its work on predetermined objectives prior to the completion of the financial year, as required by Section 45(a) of the MSA.

*Auditor-General*

Cape Town

30 November 2010



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*